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MONTANA ECONOMIC DEVELOPMENT BOARD

REPORT TO THE 49TH LEGISLATURE

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MONTANA ECONOMIC DEVELOPMENT BOARD

REPORT TO THE 49TH LEGISLATURE

Submitted to:

The Honorable Ted Schwinden
Governor of Montana

December 1984

MONTANA ECONOMIC DEVELOPMENT BOARD
DEPARTMENT OF COMMERCE

TED SCHWINDEN, GOVERNOR
1424 9TH AVENUE

STATE OF MONTANA

(406) 444 2090
HELENA, MONTANA 59620-0401

December, 1984

To the People of Montana:

The Montana Economic Development Board is proud to submit its first report to the people of Montana, the Governor, and the 49th Legislature.

By the time the Legislature meets in January, 1984, we will have committed over $8 million in long-term, fixed-rate financing to over 17 Montana businesses that will create over 300 jobs when construction of new facilities is completed. Additional jobs will be generated by the multiple effect for each basic job financed. The loans range in size from $55,000 to our maximum loan of $1,000,000 and the businesses are located from Baker to Eureka in both small towns and major cities.

Montana now offers an attractive environment for firms that are seeking expansion capital. A strong and productive partnership of the private financial community and the state is emerging with its focus providing long-term, fixed-rate financing for Montana manufacturing and service businesses.

We believe we have initiated a process that will over the next several decades fulfill our statutory mandate "to utilize coal tax trust funds to diversify, strengthen and stabilize the Montana economy and to increase Montana employment and business opportunities."

Sincerely,

D. Patrick McKittrick

Patrick McKittrick, Chairman
Montana Economic Development Board

PM/gp

Enclosure

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Lewistown
Jeremiah R Sullivan
Helena
G Steven Brown
Helena
Karen K Locke
Eureka
John C. Orth
Butte
Jackson L. Schutte
Billings

BOARD & STAFF

MONTANA ECONOMIC DEVELOPMENT BOARD

D. Patrick McKittrick*, Chairman
Great Falls

G. Steven Brown**
Helena

Karen K. Locke**
Eureka

John C. Orth**
Butte

Jackson L. Schutte**
Billings

Yvonne Snider*
Lewistown

Jeremiah R. Sullivan*
Helena

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TABLE OF CONTENTS

		PAGE
I	EXECUTIVE SUMMARY	8
	- Coal Tax Loan Program.	9
	- Composite IDB Program.	10
	- Stand-Alone IDB Program	11
	- Montana Capital Companies.	12
	- Development Finance Partnership.	12
II	INTRODUCTION	14
III	BRIEF DESCRIPTION OF EACH DEVELOPMENT FINANCE PROGRAM ADMINISTERED BY THE BOARD.	18
	- Coal Tax Loan Program	18
	Federal Guaranteed Loan Program. . .	19
	Business Loan Participation Program.	19
	Economic Development Linked Deposit Loan Program	19
	Guarantee Loan Program	20
	SBA 503 Loan Participation Program .	20
	- Industrial Revenue Bond Programs.	20
	Composite Industrial Development Revenue Bond Program	21
	"Stand Alone" Industrial Revenue Bond Program	21
	- Montana Capital Companies	22
	- Municipal Bond Pool	23
IV	STATUS OF MEDB PROGRAMS, NOVEMBER 30, 1984 . . .	26
	- Coal Tax Loan Program	26
	- Composite Industrial Revenue.	27
	- Montana Capital Companies	28
	- Municipal Bond Pool	28
	- Loan Packaging Assistance	28
	- Health Facility Authority	29
	- Report to Legislature on Potential Uses of Coal Tax Trust Fund	29

IV STATUS OF MEDB PROGRAMS, NOVEMBER 30, 1984 (cont.)

- Loan Yield 29
- STIP Yield. 30
- Administrative Costs. 31
- Savings to Montana Businesses 31

V DETAILED DESCRIPTION OF COAL TAX LOAN PROGRAM. . 33

- Introduction. 33
- Business Loans Participation Program. . . 36
- Guaranteed Loan Program 40
- Purchase of Federally Guaranteed Loans Program 44
- Economic Development Linked Deposit Program. 46
- Summary of Interest Rates & Charges . . . 49

VI DETAILED DESCRIPTION OF COMPOSITE INDUSTRIAL DEVELOPMENT REVENUE BOND PROGRAM 52

- Program Description 52
- Application Process 55
- Program Requirements. 58
- Eligible & Ineligible Projects. 59
- Fees, Charges & Interest Rates. 62
- "Stand Alone" Program 63

VII LOAN PACKAGING ASSISTANCE. 65

- SBA 7(a) Business Loan Guarantee 65
- SBA 503 Certified Development Company Loans. . 65
- Business and Industry Loan Guarantee (B&I) . . 66
- Community Development Block Grant (CDBG) . . . 67
- Urban Development Action Grant (UDAG). 67
- Montana Renewable Energy and Conservation Loan Program 68
- Montana Water Development Program. 69
- Board of Investments Loan. 70
- Security Regulation Exemptions for Small Business 70
- City, Town and County Industrial Development Bonds. 71
- EDA Loan Guarantees. 71

VIII AUDITOR'S REPORT AND BOARD FINANCIAL STATEMENT . 73

APPENDICES:

A. AUTHORIZING LEGISLATION A2

B. APPROVED FINANCIAL INSTITUTIONS A3

C. OUTLINE OF ADMINISTRATIVE RULES A5

D. LIST OF BOARD MEETINGS A7

E. COAL TAX WORKSHOPS A8

F. COMPOSITE INDUSTRIAL DEVELOPMENT BOND WORKSHOPS. A8

G. DISTRIBUTION OF COAL TAX A9

H. SUMMARY OF LEGISLATIVE RECOMMENDATIONS A10

SECTION I

EXECUTIVE SUMMARY

The need for capital -- in the right amount and on the right terms -- is common to all businesses. Large, established corporations seldom have trouble tapping traditional capital markets, but the right kind and the right amount of capital has traditionally been unavailable to small business. In Montana, this lack of capital has been a major impediment to the creation and expansion of small business.

In addition to serving a state's existing small business community, capital availability is a critical factor in many business relocations. Of the 200 inquiries the Department of Commerce has fielded since July 1983 seeking business location information, nearly half have requested information on financial incentives for moving to Montana. Specifically, they were concerned about affordable, available capital.

Montanans sought to bridge the capital gap two years ago by turning out in large numbers to pass an initiative known as I-95 or the "in-state investment initiative." By a margin of 71 percent, Montana voters passed this ballot measure which required that 25 percent of the revenue deposited in the permanent coal tax trust fund after June 30, 1983, be invested in the Montana economy. From that voter-passed law, the 1983 Legislature molded the Montana Economic Development Board (MEDB), which administers the Coal Tax Loan Program

and four other development finance programs: the Composite Industrial Revenue Bond Program; the Stand-Alone Industrial Development Bond Program; the Municipal Bond Pooling Program; and the Montana Capital Companies Act.

All four business finance programs are designed to help Montana small businesses obtain attractive capital financing. Each program has different eligibility criteria under state or federal law, but the primary focus of all the programs is to increase the availability of long-term, fixed-rate financing. This type of financing is particularly important to small, expanding firms. The long-term feature allows firms to spread their debt payments over time, and the fixed-rate feature allows businesses to plan for the future with some degree of certainty.

A. Coal Tax Loan Program:

The MEDB makes coal tax loans to basic sector businesses through participating financial institutions such as banks, credit unions, and savings and loan associations. The Board makes no direct loans. Because growth in other economic sectors is dependent on the growth and expansion of basic sector businesses, the focus of the coal tax loans on basic sector businesses is intended to stimulate growth in the derivative sectors as well. Coal tax loans may finance acquisition of land, buildings or equipment, and working capital if federally guaranteed.

As of November 30, 1984, the Board had approved coal tax loans totalling $4,999,600 to ten businesses in seven communities. An $11.6 million match from private investors and lenders totals $15.2 million in projects that are expected to generate an estimated 245 to 294 new jobs in the

state. The state can also expect to benefit from secondary jobs in the service sector stimulated by these loans to basic sector businesses.

The average interest rate received by the Board on loans it has made is 11.19 percent. The average blended rate to the borrower is 12.83 percent. In addition to the interest rate paid by the borrower, the State will benefit from increased personal and corporate tax collections of new employees and expanded businesses, as well as increased property taxes. It is estimated the increased taxes from new employees will be equivalent to another 5.6 percent interest on the amount loaned by the Board.

The Board has $5.4 million available yet for coal tax loans in the current fiscal year. Currently pending are 20 serious inquiries with loan requests that total more than $20 million. The Board has received 565 initial inquiries from lenders and businesses. Based on current coal projections, the Board hopes to approve an additional $15 million in loans by the end of the next fiscal year.

B. Composite Industrial Development Bond Program:

Loans in the composite industrial revenue bond program do not utilize coal tax trust funds; rather, they are funded through the sale of state-issued composite industrial revenue bonds. Unlike the coal tax loan program, which is restricted to basic sector businesses, the composite IDB program is available to retailers and other service businesses as well as basic sector businesses. IDB loans may be used for financing buildings, equipment or land.

The pooling together of a number of small loans into one composite bond issue makes tax-exempt financing available to Montana small businesses for the first time. Traditionally, tax-exempt financing from industrial revenue bonds has been available only to large businesses that can afford the costs involved in preparing and selling bonds. Costs of issuing the composite bond are prorated among the borrowers in a given pool. The MEDB intends to close a loan pool and issue a composite bond approximately every four months.

The Board has already approved $3,037,000 in composite industrial development bond loans to seven Montana small businesses. As of December 1, 1984, there was over $3 million in loan applications pending for the second composite bond issue.

C. Stand-Alone Industrial Development Bond Program:

The MEDB may issue bonds on a "stand-alone" basis to interested Montana lenders. Through this program, the Board simply acts as an issuing authority to allow tax-exemption of interest on a qualifying loan.

Under the stand-alone program, the originating lender assumes total risk of the financed project. The project owner is required to pay bond counsel fees and the Board's administrative and financing fees. The maximum loan under this program is $10 million. Two firms are currently negotiating stand-alone issues with the Board. However, the requirement that these bonds be guaranteed has limited their appeal to Montana businesses.

D. Montana Capital Companies:

This program is designed to make private "venture" or "equity" capital an available resource within the state. Before legislation creating this program was approved in 1983, Montana had no venture capital firms. Now, there are three "capital companies" that have been approved by the Board and are in the process of raising investment capital from individual and corporate Montana investors. Two other capital companies have organized but have not yet completed the approval process. Each company seeks to raise $1.5 million in equity capital; collectively, the three active companies have raised over $1.4 million.

Through this program, the state offers a 25 percent tax credit (up to $25,000) as an incentive to individual investors in qualified Montana capital companies. The companies, in turn, must invest these funds in small, basic sector Montana firms. The available tax credits are limited to $2 million through 1987 and are divided among the capital companies.

All Montana capital companies must be approved by the MEDB before they can actively raise investment capital.

E. Development Finance Partnership:

The following chart illustrates the new development finance partnership that has emerged in Montana.

PRIVATE

- State & National Banks
- Savings & Loan Associations
- Credit Unions
- Insurance Companies
- Loan Production Offices
- Investment Bankers

STATE AGENCIES

- * Montana Economic Development Board
  - Coal Tax Loans
  - Pooled IDB Loans
  - Stand-Alone IDB Loans
  - Loan and bond guarantees
- Montana Board of Investments
  - Housing Mortgages
  - Bank Certificates of Deposit
  - Purchase SBA guaranteed loans
- Board of Housing
  - Low income housing loans
  - Multifamily housing loans
- * Health Facility Authority
  - Non-profit health facilities and equipment
- * Community Development Block Grants
  - Business development grants or loans
- Montana Renewable Energy and Conservation Loan Program
  - Small business loans and grants
- Montana Water Development Program
  - Small business loans
- * Montana Agricultural Loan Authority
  - Beginning farmer loans
- Municipal & County Industrial Development Bonds

* New program since 1983

PRIVATE SECTOR

- * Development Corporation of Montana
  - Montana capital company
- * Venture Capital Corporation of Montana
  - Montana capital company
- * Montana Equities Limited Partnership
  - Montana capital company
- * First Montana Capital Corporation
  - Montana capital company
- * Blaine County Development Corporation
  - Montana capital company
- * Rocky Mountain Ventures Ltd.
  - SBIC
- Rocky Mountain Capital
- Private investors
- * Montana Community Finance Corporation
  - 503 Small Business Loans
- * Montana Venture Capital Exemption for stock offerings
- * Montana Limited Offering Exemption for stock offerings

* New program since 1983

FEDERAL AGENCIES

- Federal Small Business Administration
  - Small business loan guarantees
- Farmer's Home Administration
  - Business & Industry Loan Program
- UDAG
  - Urban Development Action Grants
- Import-Export Bank
  - Export financing
- * Small Business Innovative Research Grants
- Economic Development Administration

SECTION II

INTRODUCTION

The newly created Montana Economic Development Board has laid the foundation for the orderly implementation of the comprehensive package of five development finance programs approved by the 1983 legislature. The programs include the coal tax loan program, composite industrial development revenue bond program, stand-alone industrial revenue bond program, Montana capital companies program, and municipal bond pooling program. The goal of the first four programs is to help small Montana businesses obtain long-term, fixed-rate financing through private Montana lending institutions. The goal of the fifth program is to provide the same benefits to Montana local governments for small loans under $500,000.

The Board's four business finance programs are designed to help Montana small businesses obtain attractive capital financing. Each program has different eligibility criteria under state or federal law, but the primary focus of all the programs is to increase the availability of long-term, fixed-rate financing to Montana small businesses. This type of financing is particularly important to small expanding firms. The long-term feature allows firms to spread their debt payments over time, and the fixed-rate feature allows businesses to plan for the future with some degree of certainty.

The Board's objectives during its initial period of operation, all of which have been completed, were to:

-- review and thoroughly understand new development finance legislation and evaluate similar programs in other states.

-- conduct public hearings to receive citizen and business suggestions for implementation of our programs.

-- prepare and adapt rules to implement each development finance statute.

-- design and implement procedures for approving participating financial institutions.

-- design and implement for both the coal tax program and composite industrial revenue bond program for submission of loan applications, staff credit review procedures, board review standards, procedures for disbursal and collection of loan funds.

-- educate the lending community and Montana small business community about the Board's programs.

-- identify staff need, recruit and train a professional staff to administer the Board's programs.

-- establish a working rapport with the Montana Board of Investments and conduct the two joint meetings as required by statute.

-- solicit proposals from bond counsel and underwriter, evaluate proposals, and select an underwriting team for the composite industrial revenue bond program.

-- monitor federal legislation affecting the Board's programs and work with congressional delegation to resist undesirable changes.

The Montana Economic Development Board met 19 times in FY 1983-84, held three public hearings and two joint meetings with the Board of Investments. As required by statute, the Board drafted, held public hearings on, and adopted over 40 pages of rules to implement the five statutes.

The Board considered its staffing needs, reviewed the staffing patterns of similar programs in other states, drafted position descriptions, advertised, interviewed and selected five staff members. While it was selecting its permanent staff, the Board utilized contracted staff and staff loaned by the Department of Commerce.

The Board created a loan policy committee composed of bankers and accountants to carefully review the Board's rules, application forms, survey agreements, and other documents. The committee met three times and provided invaluable assistance to the Board.

Development finance programs, by their very nature, are long-term undertakings. The Board has taken the long view in cautiously and methodically implementing these programs. Our objective was not to begin as

quickly as possible, but to begin as soundly as possible. We believe we have succeeded.

Part III includes a brief description of each program. A fuller description of each program is provided in Parts V and VI. Part IV gives a brief status report on each program and Part VII describes briefly the various other types of development finance programs available in Montana.

SECTION III

BRIEF DESCRIPTION OF EACH DEVELOPMENT FINANCE PROGRAM

A. Coal Tax Loan Programs:

The Montana Economic Development Board makes coal tax loans to basic sector businesses. These include: manufacturing, agriculture and mineral production and processing, transportation, tourism, businesses that produce a good or service in Montana that was previously purchased outside the state, and wholesale or retail distribution of Montana-made goods. Because growth in other economic sectors is dependent on the growth and expansion of basic sector businesses, the focus of these state programs on basic sector businesses is intended to stimulate growth in the derivative retail and wholesale sectors as well.

All the loan programs are designed to provide fixed-rate, long-term financing at competitive interest rates. Loans may finance acquisition of land, buildings or equipment and working capital if federally guaranteed. Five types of loans offered by the Board are described below. The maximum loan is $1 million and all loan applications must be through a Board-approved financing institution such as a bank or savings and loan association. The maximum loan-to-value ratio is 75 percent. The originating financial institution may charge the borrower a service fee of up to two percent above the interest rate established by the

Board, and the interest rate on the lender's portion of any loan is determined by the lender. The average rates for the first six loans approved by the Board were:

11.55 Board buy rate on its share of loan

1.41 Service charge by bank on Board's share of loan

14.67 Bank's rate on bank's share of loan

13.34 Total blended rate to borrower

(1) Federal Guaranteed Loan Program

The Board will fund a small business loan by purchasing the guaranteed portion of the eligible SBA, FmHA and EDA loans. The interest rate to the Board is set at 85 percent of the rate for U.S. Treasury bonds of a like or similar maturity. (In early December, the Board's rate for a 20-year loan was 9.88%.)

(2) Business Loan Participation Program

The Board will fund a small business loan by purchasing from the originating lender up to 80 percent of the loan amount. The interest rate to the Board is set at 95 percent of the rate for U.S. Treasury bonds of a like or similar maturity. (In early December, the Board's rate was 11.04%.)

(3) Economic Development Linked Deposit Loan Program

The Board will fund a small business loan by placing a long-term deposit with the lender equal to 100 percent of the loan. The interest rate to the Board is set at 90 percent of the rate for U.S.

Treasury bonds of a like or similar maturity. (In early December, the Board's rate was 10.46%.)

(4) Guaranteed Loan Program

The Board will guarantee a small business loan. The interest rate to the Board is set at 95 percent of the rate for U.S. Treasury bonds of like or similar maturity and the Board receives a 1 percent annual guarantee fee. (In early December, the Board's rate was 11.04%.)

(5) SBA 503 Loan Participation Program

The Board will fund an SBA 503 small business loan by purchasing from the lender up to 80 percent of the lender's portion of a 503 package. The interest rate to the Board is set at 95 percent of the rate for U.S. Treasury bonds of a like or similar maturity. (In early December, the Board's rate was 11.04%.)

B. Industrial Revenue Bond Programs:

The Montana Economic Development Board issues tax-exempt Industrial Development Revenue Bonds (IDBs) to fund loans to Montana businesses for the acquisition of land, buildings or equipment by selling tax-exempt bonds. All loans provide long-term, fixed-rate financing and must be originated and serviced by Board-approved financial institutions and meet federal eligibility requirements. Businesses are not limited to basic sector business described above. Retail, wholesale, and service businesses are eligible through 1986.

(1) Composite Industrial Development Revenue Bond Program

Every four months the Board will sell industrial development bonds to finance a package of loans it has approved during the previous months. Composite IDB loans may be for up to $1 million and the originating lender must provide a 35 percent letter of credit on the project to back the loan for the first five years. Borrowers are requested to contribute at least 10 percent equity on projects. As required by federal law, projects must be approved by the Board before project costs may be incurred. Costs of issuing the Composite bond are prorated among the borrowers in a given pool. The interest rate on loans is established when the bonds are sold, and includes the rate the bonds sold for, application fees, and the costs of issuing the bond which are prorated among the borrowers in the given pool. The total effective rate to borrowers for the first pool to be funded in December is estimated to be between 12.25% and 12.75%.

(2) "Stand-Alone" Industrial Revenue Bond Program

The Board may issue bonds on a "stand alone" basis to Montana borrowers. Through this program, the Board simply acts as an issuing authority to allow tax exemption of interest on a qualifying loan. The originating business assumes total risk on the financial project. The interest rate on the underlying loan may be fixed or variable and the interest income on the loan will be exempt from federal taxation. The project owner will be required to pay bond counsel fees and the Board's administrative and financing fee. The maximum loan under this program is $10 million.

C. Montana Capital Companies:

The Montana Capital Company Program is designed to make private venture or equity capital an available resource within the state. Through the program, the state offers a 25 percent tax credit incentive (up to $25,000) to investors in qualified Montana Capital companies, which in turn must invest these funds in small, basic Montana firms. The Capital Companies must apply to the MEDB for approval.

The available tax credits are limited to $2 million through 1987, and are allocated to Capital Companies. These five firms are sources of potential venture, equity or risk capital for Montana small businesses. Each firm is seeking to raise $1.5 million equity capital. Collectively they have already raised $1.4 million.

Development Corporation of Mt.
P.O. Box 916, 555 Fuller Avenue
Helena, Montana 59624
(406) 442-3850

Blaine County Development Corp.
P.O. Box 38
Chinook, Montana 59523
(406) 357-2411

Venture Capital Corporation of Mt.
315 Securities Building
Billings, Montana 59101
(406) 256-1984

Montana Equities Ltd. Partnership
315 Securities Building
Billings, Montana 59101
(406) 256-1984

First Montana Capital Corporation
Route 1, Box 169
Ronan, Montana 59864
(406) 676-2146

A separate, but closely related development during the year was the creation and approval of Rocky Mountain Ventures, Ltd., Montana's first and only Small Business Investment Company (SBIC). This federally chartered company will provide "venture" or "risk" capital to Montana

businesses through a combination of its own capital and funds the SBIC can borrow from the federal Small Business Administration.

Rocky Mountain Ventures, Ltd.
315 Securities Building
Billings, Montana 59101
(406) 256-1984

D. Municipal Bond Pool:

The Montana Economic Development Board has the authority to pool debt of local governments (cities, towns, counties, school districts, and special districts) and raise funds for the purchase of local debt by issuing bonds and notes payable out of loan repayments. Single loans may not exceed $500,000.

The Board sent a survey to all local governments to determine the number and size of potential projects that could be included in the Board's bond pools.

The MEDB will sell bonds in an amount sufficient to purchase bonds or notes of local government units which we anticipate from the survey for the following year. At that point, a pool of funds will exist with a known interest rate at which the Board may purchase local government obligations, including general obligation bonds, revenue bonds, and special improvement district (SID) bonds.

In order to sell their obligations to the MEDB "Bond Bank," local government will simply apply to the Board on a structured application form, and if approved, they will adopt a draft form of resolution and

coordinate with Board bond counsel to develop closing documents to sell their bonds or notes to the Board.

The program structure which we have developed will greatly benefit the political subdivisions of Montana by lessening both the cost and the hassle of obtaining tax-exempt debt financing.

	MONTANA CAPITAL COMPANY PROGRAM	COAL TAX LOANS PROGRAM	INDUSTRIAL REVENUE BONDING PROGRAM
GENERAL OVERVIEW	* Provides venture, risk, or equity capital to small Montana firms. * Private sector program with tax credit incentive and monitoring from state. (25% tax credit for investments * In general, provides funding for start-up or expansion activities that cannot secure conventional financing.	* Implements I-95 providing for in-state investments of 25% of new revenue deposited in coal tax trust fund. * No direct loans (maximum state participation - 80%). * Funds must be invested under the "Prudent Man Rule" taking into account the "long-term benefit to the Montana economy." * Program encourages long-term fixed-rate loans.	* Utilizes tax-exempt Industrial Revenue Bonding authority. * MEDB pools together the debt of a number of smaller businesses and pro-rates the costs among the participating businesses; or * MEDB "privately places" bonds for smaller projects to interested financial institutions. * Final interest rate is based upon a tax-exempt bond rate, with appropriate spread for costs and servicing. * Provides long-term fixed- or variable-rate financing for fixed assets.
WHO TO APPROACH	* Three qualified companies to date.	* MEDB-approved lenders (contact the office of the Board for a list of approved lenders in your area.	* MEDB-approved lenders.
ELIGIBLE BUSINESSES	* Businesses engaged in basic economic activities.	* Businesses engaged in one of the following economic activities: 1. "Basic Economic Activity" - 50% or more of gross revenues are derived from out-of-state sources. 2. "Import Substitution Activity" - 50% or more sources in place of like or similar goods or services which previously would have been purchased from out-of-state sources. 3. Retail and wholesale distribution of Montana-made goods.	* In general, any business; however, 1982 federal legislation makes recreation, entertainment, food, beverage, and automobile-related projects generally ineligible for IDB financing.
FUNDABLE ACTIVITIES	* Any business activity, to be negotiated with the Qualified Capital Company.	* In general, any business activity, with limitations on loans strictly for refinancing or working capital.	* Land, building, and equipment; and related costs incurred before MEDB issues "inducement resolution".

SECTION IV

STATUS OF MEDB PROGRAMS

November 30, 1984

A. Coal Tax Loan Program:

There are 61 approved financial institutions in 29 communities that have signed agreements with the Board and are prepared to assist businesses in preparing coal tax or composite industrial development bond applications. We have received 565 inquiries regarding the Coal Tax Loan Program during the last year, 31 during July, 22 in August, 40 in September, 58 in October, and 52 in November.

We have worked with over 34 serious inquiries by firms on preparing Coal Tax applications; 16 applications have been completely processed through the office: 10 approved by the Board and accepted by applicant, 2 approved by the Board, but rejected by applicant, 2 applications withdrawn by the Bank, and 2 applications rejected by the Board.

The 10 approved and accepted loans in seven communities total $4,999,600. We have $5,363,253 available for loans, and the 19 pending serious inquiries we are working with total over $20 million.

Projects approved to date include:

	No. of Jobs Created	Board Share	Total Loan
Trucking firm, Baker	10	$ 180,000	$ 200,000
Lumber firm, Eureka	11-55	770,000	1,100,000
Publishing co., Helena	5	375,000	500,000
Oil service firm, Baker	3	301,000	350,000
Resort hotel, Whitefish	88	1,000,000	8,300,000
Manufacturing firm, Whitefish	90	1,000,000	1,250,000
Electronics mfr., Polson	15	429,000	646,000
Economy motel, Butte	20-25	640,000	800,000
Window mfr., Missoula	3	216,600	285,000
Tour boat, Polson	.5	88,000	110,000
Total:	245.5-294.5	$4,999,600	$13,541,000

The average time between an initial inquiry and submission and approval of a loan application is over three months. Every loan has been processed within one month of the submission of a complete application by the business and financial institution.

B. Composite Industrial Revenue Bond Program:

We received 30 inquiries during July, 28 in August, 34 in September, 43 in October, and 36 in November. As of December 1, 1984, we have 18 applications on file.

We will sell our first composite industrial revenue bond issue December 20, 1984, in the amount of $3,650,000 to fund loans to seven businesses and to capitalize a reserve account. The businesses are:

	No. of Jobs Created	Board Share	Total Project
Insurance office, Billings	3	$ 59,000	$ 77,000
Office bldg., Kalispell	n/a	424,000	476,000
Chiro. center, Kalispell	2	212,000	261,000
Surg. center, Kalispell	10	806,000	900,000
Plumbing/elec., Kalispell	2	350,000	427,000
Beverage dist'r., Kalispell	5	186,000	200,000
Med. office bldg., Helena	n/a	1,000,000	1,485,000
Total:	62	$3,037,000	$3,826,000

We are already working with several firms that we expect to participate in the second IDB composite issue in the spring. We expect to close an IDB bond pool every four or five months.

C. Montana Capital Companies:

Three capital companies have been approved by the Board and they are in the process of raising investment capital from Montana individual and corporate investors.

- Venture Capital Corporation of Montana, Billings
- Development Corporation of Montana, Helena
- Montana Equities Limited Partnership, Billings

Another two companies (Blaine County Development Corporation and First Montana Capital Company) have not completed the approval process. Each company is seeking to raise $1.5 million in equity capital. Collectively they have already raised over $1.4 million.

D. Municipal Bond Pool:

We have surveyed all cities, towns, counties, and school districts in the state inviting them to participate in the first municipal bond pool that will be issued in December after November bond elections. It appears that 10 to 12 local governments will participate in an initial pool of $3 to $4 million.

E. Loan Packaging Assistance:

In addition to the coal tax and IDB loans identified above, the Board staff and Department of Commerce staff are working with five firms seeking UDAG or SBA 503 financing.

F. Health Facility Authority:

The Montana Economic Development Board staff worked as staff to the Health Facility Authority for the last year. We just completed issuing $23 million in bonds at 8 percent to finance equipment for 20 health care facilities in 17 communities. The Health Facility Authority is processing three requests totalling $19,715,360 for stand-alone industrial development bonds for constructing health facilities in three communities.

G. Report to Legislature on Potential Uses of Coal Tax Trust Fund:

The statute creating the Board provides:

> The board shall prepare for each regular session of the legislature a report on potential uses of the coal tax trust fund to develop a stable, strong, and diversified Montana economy that meets the needs of present and future generations of Montanans while maintaining and improving a clean and healthful environment as required by Article IX, section 1, of the Montana constitution. (Section 17-6-323 M.C.A.)

This report is being prepared and will be presented to the legislature in January.

H. Loan Yield:

The average interest rate received by the Board on the first eight loans is 11.19 percent. The average blended rate to the Borrower is 12.83 percent. In addition to the interest rate paid by the Borrower, the state will benefit from increased personal and corporate tax collections of new employees of the companies and increased property taxes. It is estimated that the increased taxes from new employees of the businesses borrowing

state funds will be equivalent to another 5.63 percent interest on the amounts loaned by the state.

Because loans are restricted to "basic businesses," there are secondary or derivative benefits from the loans. These include the creation of secondary or support jobs in the service sector. It is estimated that approximately 284 secondary jobs will be created as a result of the 242-291 basic jobs created by the loans. The secondary jobs will create additional personal income tax collections equivalent to another 5.32 percent interest. The total return to the state on the first eight loans can be summarized:

Direct interest payments	11.19%
Tax return on basic jobs	5.63%
Tax return on secondary jobs	5.32%
Total Return to State	22.14%

For comparison, the average treasury bond rate for the equivalent period of time was 12.66 percent.

I. STIP Yield:

The Montana Economic Development Board authorized the Board of Investments to manage the short-term assets of the Board through their Short-Term Investment Program (STIP). STIP yield on the In-state Investment Trust Fund for the period 9/83 to 6/84 calculated by Dick Cain of the Board of Investments was 10.32 percent plus their administrative costs.

J. Administrative Costs:

Since the state's development finance program became operational, a total of $8 million in loans to small business has already been processed by the Montana Economic Development Board Staff, and another $22 million in health care facility equipment loans has been financed through a bond issue. Serious inquiries regarding another $20 million in business loans have been received by the staff. The state administrative cost of approximately $300,000 to date for the total of $30 million in financing has been less than one percent of projects financed. The administrative costs will decrease as loan volume increases now that the start-up period is complete.

K. Savings to Montana Businesses:

If the Coal Tax Loan and Composite IDB programs did not exist, and the owners of these projects were forced to secure conventional financing, they would probably have been faced with an interest rate equal to New York "prime" + 2 percent, varied quarterly. With "prime" rate at 13 percent during the fall of 1984 (hence, a loan rate of 15 percent) total estimated annual debt service for the businesses on these loans with conventional financing is compared to debt service under the Board's programs:

	Composite IDB	Coal Tax Loans
Est. Conventional Debt Service	$571,500	$1,971,900
Est. Debt Service with Board's Programs	485,775	1,686,636
Estimated Annual Net Savings to Montana Businesses:	$85,725	$285,264

This is the estimated savings for loans made during the first six months of the programs' operations. The loan volume will probably double by the end of the fiscal year, doubling the savings to Montana businesses. The savings will continue for the 15- to 20-year term of each loan.

SECTION V

COAL TAX LOAN PROGRAM

A. Introduction:

The objectives for the in-state investment of a portion of the Coal Tax Trust Fund for economic development purposes, as set forth in Initiative 95 and HB100, are "to diversify, strengthen and stabilize the Montana economy and to increase Montana employment and business opportunities while maintaining and improving a clean and healthful environment."

Given a relatively limited amount of available coal tax loan funds (estimated to be $13 million for the current fiscal year) and the existence of a number of other federal and state programs which support commercial and industrial development activities, the Montana Economic Development Board (MEDB) had to decide how to target its funds to best fulfill its legislative mandate. After long and thoughtful consideration, the MEDB determined that it should focus on three major areas:

-- basic economic activity;

-- import substitution activity; and

-- retail and wholesale distribution of Montana-made goods.

The rationale underlying that decision is that in order to "diversify, strengthen, and stabilize" the state's economy, it is necessary to do

more than simply continue to recirculate the financial resources already in the state. We instead must infuse the economy with new capital resources, while at the same time partially stemming the outflow of "Montana" dollars to other states.

The keys to determining which individual firms within those broad classifications qualify as basic industries are:

-- Who purchases the goods or services produced by the firm?

-- Where do the resources come from to make those purchases?

-- What percentage of the firm's total revenues are derived from exporting goods or services and/or from importing new financial resources?

The following are some examples of how the distinction is made:

-- A company manufacturing hammers and screwdrivers and selling 80 percent of its products to hardware wholesale and retail outlets in states outside Montana is a basic industry. A meat processing plant that makes sausage and jerky and sells almost entirely in-state to Montana residents is non-basic. In the first case, the firm exports its products and imports dollars in return. In the second case, no export occurs. The money which buys the sausage was already in the community, although it has now changed hands. There are no additional resources in the community available for economic activities than there were before the transaction occurred.

-- A consulting firm specializes in environmental impact studies. Although most of its work is done in-state and although most of its reports are used by clients in making presentations to various Montana permitting agencies, the clients themselves are major non-Montana oil and coal companies. The consulting firm's services are not being exported, but they are bringing "new" money into the state. The business is basic. On the other hand, a home decorating service or a beauty salon are not basic, since their services are primarily sold locally to local buyers.

-- A taxicab service is non-basic. An aircraft charter operation may or may not be basic, depending on who uses its services. An interstate trucking firm is probably basic.

-- A bar and restaurant catering mostly to a local clientele is non-basic. A bar and restaurant located near a national park and deriving most of its revenues from out-of-state vacationers and business travelers is basic.

Import substitution activity is defined by the MEDB as the in-state production of a good or service 50 percent or more of which will be purchased by in-state users in place of like or similar goods or services which previously would have been purchased from out-of-state sources. For instance, Montana has one of the highest per capita beer consumption rates in the country. If a firm began producing and selling beer in Montana as one has recently done, its activities would be classified as import substitution. The reason is that instead of buying beer from

Milwaukee or St. Louis, some Montanans would be buying the in-state beer, and the dollars which previously would have left the state for Wisconsin or Missouri would now remain at work in the Montana economy.

The retail or wholesale distribution of Montana-made goods is defined by the MEDB as any retail or wholesale distribution activity conducted in the state for which the sale of goods produced in Montana comprises 50 percent or more of gross revenues. Clearly there are many types of firms which would fall under this heading, including the sausage and jerky producer which, in the example above, failed to qualify as a basic industry. Service businesses, however, are not included, since the rule deliberately refers only to the sale of "goods."

It is important at all times to bear in mind that eligibility is more than just a question of whether a borrower's business activity falls into one of the three target classifications: basic, import substitution, or Montana-made. In addition, the specific project for which loan funds are sought must serve to diversify, strengthen and stabilize the state's economy and increase Montana employment and business opportunities while maintaining and improving a clean and healthful environment.

B. Business Loans Participation Program:

The MEDB Business Loans Participation Program, which may be used to finance conventional or SBA 503 loans, is designed to allow approved Montana financial institutions the opportunity to "sell" up to 80 percent of an eligible business loan to the Montana Economic Development Board. The Board, in essence, then owns a participating interest in both the

financing and the security for an approved commercial loan that is serviced by the originating lender. Funds will be targeted to long-term fixed-rate loans that have the potential to positively benefit economic development within our state. Through this program, originating lenders will benefit by "leveraging" available funds beyond imposed lending limits, by receiving a relatively high yield on the financial institution's share of the loan, and by affording their commercial customers access to financing at terms that were previously unavailable. Borrowers that utilize this program will also benefit by receiving long-term funds at an attractive and fixed rate of interest.

1. How does it work?

   Lenders that wish to fund a business project through the MEDB Business Loans Participation Program will first engage in an analysis of the eligibility of the business that is seeking financing and the underlying project to be funded. If it is determined that eligibility requirements are satisfied, and the lender is willing to maintain at least a 20 percent interest in the financing, the borrower and lender will complete and submit to the Board a Coal Tax Loans Program Application. An application that is deemed complete and eligible for Board investment will then be analyzed by the Administrator of the MEDB for financial feasibility and economic development potential, and will be submitted to the Board along with a summary of issues and a recommendation for action. If the Board elects to participate in the proposed financing, a commitment letter shall be forwarded to the lender indicating the interest rate in effect on the date of commitment and

any additional terms or conditions that must be satisfied prior to MEDB investment of funds. Ninety days will be allowed to close the loan unless a commitment fee is paid to extend this period. Upon closing, the lender will submit to the Board a participation report and copies of the closing documents; and MEDB funds will then be disbursed. The financial institution will service the entire loan, and will remit to the Board its proportionate share of the principal and interest as it is received. The rate of return to the MEDB on its share of the financing shall be the rate quoted in the letter of commitment to the lender for the maturity of the loan, unless otherwise specified.

2. What can be financed?

In general, the Business Loans Participation Program may be used to fund the purchase of land, buildings, equipment, machinery, inventory, building expansion or repair, or working capital subject to the following conditions:

-- Refinancing will ordinarily be considered only in conjunction with a physical expansion.
-- Working capital may be financed only in conjunction with loans for real or personal property.
-- Maximum loan-to-value ratio is 75 percent.
-- A first lien is required on pledged property. Personal guarantees may be required.
-- Loans for construction financing will not be made, but construction "take out" commitments will be allowed.

3. Fees, Interest Rates, & Charges

Application Fee: to MEDB: $500.00

to Lender: up to $500.00

Interest Rate to MEDB:

-- 95 percent of the rate for U.S. Treasury Bonds of like or similar maturity on a fixed basis (EX. as of 2/15/84, 5-yr. Bonds -- 11.32% x 95% = 10.75%*)

Service Charge:

-- The lender may charge the borrower a rate of interest no more than 2 percent beyond the interest rate to the MEDB on the Board's proportionate share of the financing.

Rate to Borrower:

* NOTE: This rate represents only the rate of return to the MEDB on its proportionate share of the financing. Final interest rates to the borrower will be a function of this rate, the service charge to the lender, and the rate of interest charged by the lender on its proportionate share of the financing.

EXAMPLE: 10.75% (MEDB RATE) + 2% (SERVICING FEE) = 12.75% = RATE TO BORROWER ON MEDB SHARE. If the lender charged 14% on its 20% share of the financing, the net or "blended" rate to the borrower would be calculated as follows:

12.75% x 80% (MEDB SHARE OF THE FINANCING)	=	10.20%
14.00% x 20% (LENDER'S SHARE OF THE FINANCING)	=	2.80%
NET OR "BLENDED" RATE TO BORROWER	=	13.00%

C. Guaranteed Loan Program:

The MEDB Guaranteed Loan Program is designed to allow Montana financial institutions a large degree of flexibility in monitoring a commercial loan that has been approved by the Board. In essence, this program is very similar to the Business Loans Participation Program, but it allows originating lenders the option to take advantage of situations in which they have adequate liquidity by requesting an MEDB guarantee of up to 80 percent of a loan rather than a direct participating interest by the Board. The guarantee will be 100 percent funded by short-term deposits in Montana banks. The flexible nature of this program then continues throughout the maturity of the loan; for if market conditions change and the lender desires a participating interest (i.e. funds), rather than the MEDB guarantee, the Board will purchase from the lender the guaranteed portion of the loan at the rate in effect when the Board issued its commitment. The guarantee may also be exercised upon notice of default. The lender and borrower both benefit as they would under the Participation Program, but there is an additional degree of flexibility to this program that makes it more attractive to the lender in certain market conditions.

1. How does it work?

Lenders that wish to fund a business project through the MEDB Guaranteed Loans Program will first engage in an analysis of the eligibility of the business that is seeking the financing and the underlying project to be financed. If it is determined that eligibility requirements are satisfied, and the lender is willing to originate and finance the loan subject to acquiring the MEDB

guarantee, the borrower and lender will complete and submit to the Board a Coal Tax Loans Program Application. An application that is deemed complete and eligible for an MEDB guarantee will then be analyzed by the Board Administrator for financial feasibility and economic development potential, and will be submitted to the Board along with a summary of issues and a recommendation for action. If the Board elects to issue a guarantee on the requested share of the loan, a commitment letter shall be forwarded to the lender indicating the interest rate in effect on the date of commitment and any additional terms or conditions that must be satisfied prior to issuing its guarantee. Ninety days will be allowed to close the loan unless a commitment fee is paid to extend this period. Upon closing, the lender will submit to the Board a participation/ guarantee report and copies of the closing documents, and a guarantee fee equal to one percent of the guaranteed portion of the loan. The Board will then place, on a bid basis, a proportionate level of funds in short-term deposits in Montana banks to fully secure the guarantee. As long as the lender opts to hold the MEDB guarantee, a guarantee fee equal to one percent of the guaranteed portion of the unpaid principal balance must be paid to the Board by the lender each year on the anniversary closing date. If the lender opts to sell the guaranteed portion of the loan back to the MEDB, the loan will from that point forward be treated as an MEDB business loan participation.

2. What can be financed?

In general, the Business Loan Participation Program may be used to fund the purchase of land, buildings, equipment, machinery, inventory, building expansion or repair, or working capital subject to the following conditions:

-- Refinancing will ordinarily be considered only in conjunction with a physical expansion.

-- Working capital may be financed only in conjunction with loans for real or personal property.

-- Maximum loan-to-value ratio is 75 percent.

-- A first lien is required on pledged property. Personal guarantees may be required.

-- Loans for construction financing will not be made, but construction "take out" commitments will be allowed.

3. Fees, interest rates, and charges

Application Fee:	to MEDB:	$500.00
	to Lender:	up to $500.00

Guarantee Fee (to be paid by Lender to MEDB at Closing of Loan and on each Subsequent Anniversary Closing Date):

-- 1 percent of the guaranteed portion of the outstanding principal balance

Interest Rate (i.e., the rate at which the MEDB will buy back the guaranteed portion of the loan):

-- 95 percent of the rate for U.S. Treasury Bonds of like or similar maturity on a fixed basis (EX. as of 2/15/84, 5-yr. Bonds -- 11.32% x 95% = 10.75%*)

Service Charge:

-- The lender may charge the borrower a rate of interest no more than 2 percent above the Board's interest rate.

Rate to Borrower:

EXAMPLE: 10.75% (MEDB RATE) + 2% (SERVICING FEE) = 12.75% = RATE TO BORROWER ON MEDB SHARE. If the lender charged 14% on its 20% share of the financing, the net or "blended" rate to the borrower would be calculated as follows:

12.75% x 80% (MEDB SHARE OF THE FINANCING)	=	10.20%
14.00% x 20% (LENDER'S SHARE OF THE FINANCING)	=	2.80%
NET OR "BLENDED" RATE TO BORROWER	=	13.00%

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D. Purchase of Federally Guaranteed Loans Program:

Through the MEDB Federally Guaranteed Loans Program, lenders that have secured a federal guarantee on a fixed-rate loan to a business that is eligible for Board investments may sell the federally guaranteed portion of the loan to the MEDB at a pre-established rate. The most common use of this program will be for loans guaranteed by the U.S. Small Business Administration (SBA). The purpose of this program is to establish an active secondary market for fixed-rate federally guaranteed loans in Montana; to allow approved financial institutions the opportunity to provide their commercial customers fixed-rate financing at a lower rate than was previously possible; and to increase local lending capacities when loan demand is high. Generally, the Board will only consider purchasing the guaranteed portion of loans originated for the purpose of using this program.

1. How does it work?

Lenders may choose to use the MEDB guaranteed loans program in one of two different manners. In the first scenario, a lender seeking to make a fixed-rate loan to a business under this program would seek SBA approval and authorization at a rate of interest in conjunction with MEDB-authorized interest rates. Upon acquiring an SBA guarantee, the lender would then submit an abbreviated application to the MEDB for its purchase of the guaranteed portion. If the Board determined that the business and project were eligible for MEDB investment and elected to invest its funds accordingly, the Board would issue its commitment to purchase the guaranteed portion of the loan at the rate in effect; and the financing would be

closed. In the second scenario, a lender seeking to make a fixed-rate loan to a business under this program would first submit an abbreviated application to the MEDB to be assured that the Board will participate in the financing. If eligibility requirements were met and the Board elected to invest its funds in the project, the Board would issue its commitment to purchase subject to the SBA approval of the loan and issuance of the federal guarantee. Ninety days would then be allowed to secure the guarantee and close the financing (unless a commitment fee is paid to extend this period), and upon closing MEDB funds would be disbursed.

2. What can be financed?

Business must meet the eligibility requirements for MEDB financing, and any type of business loan that is eligible for an SBA guarantee may, of course, be funded indirectly through this program. THis generally includes the purchase of land, buildings, equipment, machinery, building expansion or repair, inventory, or funds for working capital.

3. Fees, interest rates, and charges

Application Fee:	to MEDB:	$100.00
	to Lender:	up to $100.00

Interest Rate to MEDB:

-- 85 percent of the rate for U.S. Treasury Bonds of like or similar maturity on a fixed basis (EX. as of 2/15/84, 5-yr. Bonds -- 11.32% x 85% = 9.62%)

Service Charge:

-- The lender may charge the borrower a rate of interest no more than 2 percent beyond the MEDB interest rate on the federally guaranteed portion purchased by the Board.

SBA Ceiling:

-- The SBA interest rate ceilings apply.

Rate to Borrower:

EXAMPLE: 9.62% (MEDB RATE) + 2% (SERVICING FEE) = 11.62% = RATE TO BORROWER.

E. Economic Development Linked Deposit Program:

Through the economic development linked deposit program, the MEDB will place a long-term deposit with an approved financial institution on the condition that the lender use the proceeds of the deposit to finance a corresponding fixed-rate loan to a specific borrower that is eligible for MEDB investments. The deposit must be secured by state collateral and pledging requirements. The rate to the borrower on the supported loan will be "linked" to the return to the Board on its deposit; and although the MEDB assumes no risk on the underlying business project, the lender is assured of a specific "spread" on its funds for the duration of the

loan. In other words, this program removes the market risk to the lender in making a fixed-rate loan.

1. How does it work?

   Lenders that seek to originate a commercial loan using the economic development linked deposit program will first engage in an analysis of the eligibility of the business that is seeking financing and the underlying project to be funded. If it is determined that eligibility requirements are satisfied and the lender is willing to originate the loan subject to MEDB placement of the linked deposit, the borrower and lender will complete and submit to the Board an abbreviated Coal Tax Loan Program Application. The application will then be reviewed by MEDB staff and the Board to determine eligibility under state law and rules of the Board. If the Board elects to invest its funds in the project, a commitment letter will be sent to the lender setting forth the interest rate to the Board on its deposit and any terms or conditions that must be satisfied prior to MEDB investment of funds. Ninety days will be allowed to close the loan, upon which a "linked" deposit will be placed. The interest rate specified in the letter of commitment will be the rate in effect for the maturity of the loan; however, in order to draw down MEDB funds as principal is repaid on the loan. By doing this, the Board will, in effect, issue a one year CD that will be renewed at the same rate each year in an amount equal to the unpaid principal balance of the loan. By doing this, the Board will achieve its purpose in removing the market risk to the lender on a

fixed-rate loan, while freeing MEDB funds to make additional in-state investments.

2. What can be financed?

Funds from Economic Development Linked Deposits may be used by financial institutions to make loans for working capital, interim construction, inventory, site development, acquisition of machinery, equipment and buildings, or other types of loans.

3. Fees, interest rates, and charges

Application Fee:	to MEDB:	$100.00
	to Lender:	up to $500.00

Interest Rate to MEDB:

-- 90 percent of the rate for U.S. Treasury Bonds of like or similar maturity on a fixed basis; to be remitted monthly. (EX. as of 2/15/84, 5-yr. Bonds -- 11.32% x 90% = 10.19%)

Service Charge:

-- On the portion of the loan supported by the linked deposit (which may be up to 100%), the lender may charge the borrower a rate of interest no more than 2% above the MEDB rate.

Rate to Borrower:

10.19% (MEDB RATE) + 2% (SERVICING FEE) = 12.19% = RATE TO BORROWER ON MEDB SHARE.

F. Summary of Interest Rates and Charges:

The rate paid on any particular investment will be the appropriate percentage of the rate current for a U.S. Treasury bond of like or similar maturity as of the date the MEDB issues its commitment to purchase or guarantee.

1. Service Charge:

A lender originating a loan which the MEDB has guaranteed or participated in may charge the borrower a rate of interest no more than 2 percent above the Board's interest rate on that portion of the loan which the Board participates in or supports with its investment.

2. Guarantee Fee:

To obtain an MEDB guarantee, a lender will pay a guarantee fee of 1 percent per annum on the unpaid principal balance of the guaranteed portion of the loan. That fee may not be passed on to the borrower.

3. Application Fee:

Non-refundable application fees for the programs of the board are as follows:

Program	Fee	
Purchase of federally guaranteed loans	To the Board	$100
	To the lender	Up to $100
Economic Development Linked Deposits	To the Board	$100
	To the lender	Up to $500
Other Board investments	To the Board	$500
	To the lender	Up to $500

4. Commitment Fee:

Financial transactions participated in by the Board under these rules must be closed within 90 calendar days of the Board's issuance of its commitment. In the event such loans or financial transactions are not closed within that time, the Board may extend its commitment for an additional period of time at the fee specified below, if the Board determines such extension is warranted and in the best interest of the Board's programs. The fee to be charged for extension of a commitment shall be calculated on the basis of the amount committed at the following rates:

Period of Commitment	Rate
91 to 180 calendar days	½% of the amount committed
181 to 270 calendar days	1% of the amount committed
271 to 360 calendar days	1½% of the amount committed

5. Construction Loan 'Takeout' Fee:

In the case of a construction loan 'takeout' commitment by the Board, the underlying construction loan must be closed within 90 calendar days of the Board's issuance of its commitment. At the time of such closing, the borrower shall pay to the Board a commitment fee based on his estimated construction schedule and calculated as set forth for Commitment Fees above. If construction has not been completed by the expiration of the commitment period, the borrower shall pay an additional commitment fee for the additional period needed to complete the project, such fee to be calculated in accordance with the Commitment Fees described above.

6. Interest Rate Fee:

At the time of submission of an application to the administrator, the borrower, through payment of a non-refundable fee, may fix a board interest rate for the investment proposed in the application at the rate in effect the date the fee is received by the Board. The acceptance of the fee does not obligate the Board to make the investment proposed in the application. From 0 to 90 days the fee is 1/4 percent of the amount committed. The Commitment Fees listed above apply for periods over 91 days.

SECTION VI

COMPOSITE INDUSTRIAL DEVELOPMENT REVENUE BOND

A. Program Description:

The MEDB Composite Industrial Development Revenue Bond Program is designed to provide expanding Montana businesses attractively-priced, long-term, fixed-rate financing for the acquisition of land, buildings, or equipment. All loans must be originated and serviced by MEDB-approved lenders, who will maintain a financial interest in approved projects.

Through the Composite IDB Program, the MEDB, in essence, pools together the debt of a number of approved projects over a several month time period, and then sells tax-exempt bonds to provide funding for these projects. No single loan may exceed $1 million.

The State of Montana has pledged its "moral obligation" to back the bonds, which makes the bonds marketable and secures an attractive rate of interest. (By utilizing this technique, investors in the bonds will look to the credit of the state when evaluating risk, as opposed to the credit of the underlying businesses.) By pooling together a number of projects in one bond issue, the Board will also effectively lower the bond issuance expense to individual borrowers, since costs will be pro-rated among the participants in a given pool.

The MEDB Composite Industrial Development Revenue Bond Program, then, serves to address the two central barriers that small businesses face when attempting to access public tax-exempt financing markets: credit limitations and issuance cost restrictions.

1. How does it work?

   A businessperson seeking funding for land, buildings, or equipment approaches an MEDB-approved lender for assistance. If the lender determines that the project is feasible and is willing to place a five-year 35-percent letter of credit on the project, the borrower and lender together complete and submit an application for funding to the MEDB. If the Board approves the project, it issues a commitment to include the project in the next available bond issue.

   The MEDB anticipates three bond issues in the next twelve months that will be sold during the first week of December 1984, April 1985, and August 1985. Completed applications must be submitted to the office of the MEDB at least seven weeks prior to the scheduled bond sale in order to be considered for inclusion in the next bond issue.

   Since a project may be approved by the Board several months before funds are available from the sale of bonds, interim financing may need to be negotiated between the lender and borrower. In addition, if project construction is necessary, the Board will escrow the committed funds until project completion, at which time the permanent funds will take out the short-term construction financing.

Since the originating lender is asked to provide a letter of credit, as opposed to a direct participation, bond proceeds will provide 100 percent of the long-term financing on a given loan. Participating lenders will service outstanding loans under the program, and will remit loan payments, less appropriate fees, to the MEDB trustee (as yet to be named).

2. What's in it for Lenders?

Through the MEDB Composite Industrial Development Revenue Bond Program, Montana lending institutions have an opportunity to provide their commercial customers attractively priced, long-term, fixed-rate financing without assuming any of the market risk inherent in a fixed-rate term loan. In fact, upon closer analysis, it becomes apparent that lenders will secure an attractive variable-rate yield while supporting a fixed-rate loan. In addition, this program provides the opportunity to fund projects that are up to three times an institution's lending limit, without the need to coordinate with a correspondent lender. And finally, the fact that the lender's involvement in a project is extended through a letter of credit, as opposed to a direct participation, there is an added degree of flexibility to this program as to how an institution's underlying resources are invested.

3. What's in it for Borrowers?

Through the MEDB Composite Industrial Development Revenue Bond Program, Montana businesses have an opportunity to secure attractively priced, fixed-rate, long-term financing for eligible

fixed-asset projects. For example, in today's market, a 20-year loan originated under the Composite IDB Program would bear a fixed interest rate of approximately 12½ percent.

4. Timing

The Montana Economic Development Board is currently accepting applications under its Composite Industrial Development Revenue Bond Program. The Board will sell its first bond issue in the first week of December 1984. In order to be considered for inclusion in this bond issue, completed applications had to be submitted to the office of the Board by October 5, 1984.

B. Application Process (Two Variations):

1. First Variation: Application Part I/Part II Processing

Under this scenario, the borrower and lender first submit Part I of the application at least two weeks prior to a Board meeting to receive a determination of public interest and the issuance of the inducement resolution. Then Part II is submitted for credit evaluation and Board action. This process will take approximately seven to eight weeks from the submittal of Part I of the application to the Board's issuance of a commitment, assuming no delays are caused by incomplete applications or insufficient information. The borrower may desire to utilize this process, however, for the following reasons:

-- to ensure that the project is determined to be in the public interest prior to completing the information required in Part II of the application.

-- to allow the accountant costs that may be incurred to complete an application to be financed through the program (since only those allowable costs incurred after the issuance of the inducement resolution may be funded with bond proceeds).

The following steps are followed for a Part I/Part II Application:

a. Borrower approaches lender and lender elects to submit an application for financing through the MEDB Composite IDB Program.

b. Borrower and lender complete and submit Part I of the application with $500 application fee.

c. MEDB staff reviews application for general eligibility and begins three- to four-week public hearing process.

d. Board meets and considers Part I of application and may issue a resolution of inducement. NOTE: Only allowable costs incurred after issuance of the resolution may be financed with bond proceeds.

e. Public hearing is held and a determination of public interest is made.

f. Borrower and lender complete and submit Part II of application.

g. Staff analyzes application for credit-worthiness and submits recommendation to Board.

h. Board meets and acts on application.

i. If application is approved, Board issues a conditional commitment to fund the project with bond proceeds.

j. If needed, interim lending is arranged between lender and borrower.

k. Borrower coordinates with MEDB Bond Counsel to complete federal tax code questionnaire.

l. Board sells bonds on a pre-determined date in an amount sufficient to fund all approved projects and proceeds are disbursed to participating projects.

2. Second Variation: Complete Application Processing

Through this process, the borrower and lender submit a complete application (Parts I and II) at least three weeks prior to a Board meeting to receive Board action on the entire application in one meeting. This process will take from four to five weeks from the submittal of a complete application to the Board's issuance of a commitment, assuming no delays are caused by incomplete applications, insufficient information, or public hearing problems. This process is quicker than the Part I/Part II processing, but the borrower receives neither of the advantages attached to the split processing schedule.

The procedure is as follows:

a. Borrower approaches lender and lender elects to submit an application for financing through the MEDB Composite IDB Program.

b. Borrower and lender complete and submit complete application (Parts I and II) with $500 application fee.

c. MEDB staff reviews applications for general eligibility and begins three- to four-week public hearing process. Concurrently, staff analyzes application for credit-worthiness and submits recommendation to the Board.

d. Public hearing is held and a determination of public interest is made.

e. Board meets and acts on application.

f. If application is approved, Board issues a resolution of inducement and a conditional commitment to fund the project with bond proceeds.

g. If needed, interim lending is arranged between the lender and borrower.

h. Borrower coordinates with MEDB Bond Counsel to complete federal tax code questionnaire.

i. Board sells bonds on a pre-determined date in an amount sufficient to fund all approved projects and proceeds are disbursed to participating projects.

C. Program Requirements:

-- Maximum Loan: $1 million

-- Originating lender must provide a letter of credit in an amount equal to 35 percent of original loan amount for a term of five years. At the end of five years, the loan shall be reviewed and the letter of credit may be extended or an alternative security measure satisfactory to the Board shall be provided. (NOTE: This security

measure may be provided by the MEDB itself through either legislative change or sufficient build-up of reserves.)

-- Maximum loan-to-value ratio: 90 percent -- Value to be computed using the lower of cost or appraised value. MAI appraisal or alternative valuation satisfactory to the Board must be provided prior to disbursement of funds.

-- The MEDB shall require a first lien on the financed property. Originating lenders may maintain a second lien on the financed property and such other security devices as may be negotiated with the borrower (i.e., personal guarantees, other pledged assets, etc.)

-- If the approved project requires construction, the MEDB shall disburse funds only upon project completion.

-- In the event that a loan payment is delinquent for more than 30 days, the letter of credit shall be drawn upon and shall continue to be drawn upon until such delinquency is corrected.

-- In the event of default, the originating lender shall control liquidation of assets in consultation with the MEDB.

-- Originating lenders shall service all loans and remit payments less appropriate fees to the Board trustee.

D. Eligible and Ineligible Projects:

1. Eligible Projects

Under Montana law, the proceeds of industrial development revenue bonds can be used to acquire land, buildings, or other improvements and any other real or personal properties necessary for use as a facility for one of the following purposes:

-- commercial;

-- manufacturing;

-- agricultural;

-- industrial enterprises;

-- recreation or tourist facilities;

-- local, state, and federal governmental facilities;

-- multi-family housing;

-- hospitals;

-- long-term care facilities;

-- medical facilities;

-- small-scale hydroelectric production facilities with a capacity of 50 megawatts or less; and

-- any combination of these projects.

2. Ineligible Projects

The use of bond proceeds for the projects listed above may be limited by certain federal statutes or regulations which supersede the state law. The projects or purposes described below are ineligible under federal law for financing with proceeds of industrial development revenue bonds:

-- private or commercial golf courses;

-- country clubs;

-- massage parlors;

-- tennis clubs;

-- skating facilities (including roller skating, skateboards, and ice skating);

-- racquet sports facilities (including any handball or racquetball court);
-- hot tub facilities;
-- sun tan facilities;
-- racetracks;
-- airplanes;
-- skyboxes or other private luxury boxes;
-- health club facilities;
-- facilities used for gambling;
-- any store the principal business of which is the sale of alcoholic beverages for off-premises consumption;
-- working capital;
-- farmland, unless first-time farmer;
-- acquisition of existing property (building and equipment) unless the rehabilitation of such property equals or exceeds 15 percent of the portion of the cost of acquiring such property in the case of a building or exceeds 100 percent of the portion of the cost in the case of equipment.

No more than 25 percent of the proceeds of an industrial development revenue bond may be used to finance a facility the primary purpose of which is:

-- retail food and beverage services;
-- automobile sales or service;
-- the provision of recreation or entertainment;
-- the acquisition of land, unless in an industrial park, in which case 50 percent of the proceeds may be used to purchase the land.

E. Fees, Charges and Interest Rates:

1. Fees:

To MEDB:

Application Fee:*	$500.00
Loan Loss Reserve Fee:	.50% of outstanding loan balance
Financing & Administrative Fee:	$1.0% of original loan amount (one-time fee)

To Lender:

Application Fee:*	Up to $500.00
Loan Origination Fee:*	Up to 1.5% of original loan amount
Loan Servicing Fee:	.375% of outstanding loan balance
Letter of Credit Fee:	Up to 2.0% of the L.C. amount

* Fees paid "up front" by borrower. All other fees and charges are capitalized and built into loan payment schedule.

2. Charges:

The borrower shall pay its proportionate share of the costs of the bond issue. These charges will include such items as fees of the underwriter, financial advisor, and bond counsel, and costs of printing, advertising, executing, and delivering the bonds. All of these costs will be capitalized through the bond issue and paid throughout the life of the loan.

3. Interest Rates:

The rate of interest for loans originated under the Composite IDB Program will be equal to the tax-exempt rate of interest on the bonds plus an appropriate "spread" for the fees and charges listed above. The final rate of interest will, of course, be subject to

the market rates in effect when the bonds are sold, the fees charged by originating lenders, and costs of the bond issue, but an approximation of the effective loan rate under current market conditions would be calculated as follows:

Bond Coupon Rate:	10.25 %
MEDB Loan Loss Reserve Fee:	.50 %
*Amortization of MEDB 1% origination fee and costs of the bond issue:	.70 %
Lender Servicing Fee:	.375%
Letter of Credit Fee: (at 2% of the 35% L.C. pledge)	.70 %
NET EFFECTIVE LOAN RATE:	12.525%

* These include fees of the underwriter, financial advisor, bond counsel, and costs of printing, advertising, executing, and delivering the bonds.

F. "Stand Alone" Program:

In addition to the Composite IDB Program, the Board may issue bonds on a "stand-alone" basis to interested Montana lenders. Through the stand-alone program, the MEDB simply acts as an issuing authority to allow tax-exemption of interest on a qualifying loan.

To apply under this program, a borrower and lender submit only Part I of the application which will be reviewed for general eligibility under federal law. If the project meets federal tax code requirements and is determined to be in the public interest, the Board will induce the project and bond counsel will coordinate with the lender to draft appropriate closing documents. The project owner will be required to pay bond counsel fees and the MEDB administrative and financing fee.

Under the stand-alone program, the originating lender assumes total risk on the financed project; the MEDB simply acts as a tax-exempt bonding authority. The interest rate on the underlying loan may either be fixed or variable, based on a chosen index (i.e. the prime rate). The interest on the loan will be exempt from federal taxation. The maximum loan under the stand-alone program is $10 million.

SECTION VII

LOAN PACKAGING ASSISTANCE

The staff of the Montana Economic Development Board works closely with staff of the Business Assistance Division of the Department of Commerce to help business identify and understand potential federal and state loan programs. This activity, called "Loan Packaging Assistance," helps business identify sources of potential financing, but the individual business has the responsibility of applying for the various programs. In addition to information on programs of the Montana Economic Development Board, information is provided on the following programs:

A. SBA 7(a) Business Loan Guarantees:

This program provides loans, loan guarantees, and immediate participation loans to small firms to enable them to build, expand, or convert facilities; buy buildings, equipment, and materials, or obtain working capital. To qualify, the businesses must be for-profit, unable to obtain private financing, independently owned and operated, and no larger than a specified size. The loans may be used for almost all small business needs.

B. SBA 503 Certified Development Company Loans:

There are six local and one state-wide 503 corporations CDC in Montana. The MEDB worked with the Development Corporation of Montana to create the

state-wide 503 corporation called the "Montana Community Finance Corporation" so that 503 loans could be done in any community of the state.

A CDC may sell debentures (which are 100% guaranteed by SBA) and use the debenture proceeds to fund a long-term fixed rate loan for up to 40 percent of the total cost of an eligible project. Financing is for long-term fixed asset financing (primarily of land and buildings, although incidental equipment necessary to the business may be included). The remainder of the project cost must be borne by private sources, with the CDC injecting at least 10 percent of the project cost. The CDC's share may be provided by the borrowing small business. The debenture amount cannot exceed $500,000, nor may it be more than 50 percent of total project cost. The interest rate charged will be based upon U.S. obligations of similar maturities. The term of the debenture may not exceed 25 years. There are few restrictions applied to the private financing.

C. Business and Industry Loan Guarantee (B&I):

The Business and Industry loan program of the Farmers Home Administration provides loan guarantees to help businesses, for-profit and non-profit organizations, and individuals create or save jobs in rural areas. Guaranteed loans may generally be used for the typical expenditures necessary to improve, develop, or finance business and industry, including acquisition, construction, development costs, equipment, and working capital.

FmHA imposes no loan limits on its B&I loans, although generally they are most appropriately used for projects of over $500,000 (over SBA's lending limits).

D. Community Development Block Grant (CDBG):

The goal of the Montana Community Development Block Grant program is to develop viable communities by providing decent housing, healthful and safe living environments, and economic opportunities, principally for persons of low to moderate income.

Eligible applicants are limited to general purpose local governments: counties, incorporated cities and towns, and consolidated city-county governments. Grants are awarded annually on a competitive basis. Applicants may submit one application per annum for either a single-purpose or comprehensive grant. A single-purpose grant project must address a community development need in one of the following categories: economic development, housing, or public facilities. A comprehensive grant must address community development needs in at least two of those categories. Single-purpose grants have a ceiling of $400,000. Comprehensives have a ceiling of $500,000 per year for a maximum of three years. In 1983, grants ranged from $21,800 to $1.5 million.

E. Urban Development Action Grant (UDAG):

The Urban Development Action Grant program is designed to encourage new or increased private investment in cities suffering severe economic distress. UDAGs may fund a wide variety of economic development

activities as long as the private sector is also involved. These activities may include site clearance and improvements, provision of infrastructure, and rehabilitation and construction of commercial, industrial, and mixed-use development projects. UDAG funding may be used in the form of equity, loans, interest subsidies, or almost any possible form of financing -- but only if a project would not proceed without UDAG funding. HUD gives priority to proposals that allow the community to recapture or recycle the grant funds.

Communities must meet a set of "distress criteria" and be placed on HUD's list of eligible applicants. Communities not on this list may not apply for UDAG funds. An eligible community must compete against all other UDAG applicants on a project-by-project basis. The primary selection criterion is the city's degree of economic distress.

F. Montana Renewable Energy and Conservation Loan Program:

Low-interest loans are available from the Montana Department of Natural Resources and Conservation for commercialization of renewable energy in Montana. Any new or expanding business incorporated or authorized to do business in the state may apply. Loan activities must be conducted in Montana and must involve commercialization of solar, wind, geothermal, microhydro, or biomass energy alternatives. Eligible activities include development, design, building, manufacturing, marketing, distribution, and sale of a renewable energy information. Loans may not be used for refinancing.

All renewable energy loans must be repaid within 10 years of the lending date. The maximum amount of funding available for any one loan project for Fiscal Year 1984 is $295,000. Of this amount, $265,000 would be loaned by DNRC; the remaining 10 percent would be provided by the participating financial institution administering the loan. Loan applications are accepted by DNRC three times each year: in October, January, and March. DNRC staff review proposals for technical soundness, feasibility, and potential environmental impact. Participating financial institutions perform all analyses of creditworthiness and conduct all other loan origination work.

G. Montana Water Development Program:

The Water Development Program is designed to promote and advance the beneficial use of water in Montana by providing extensive financing for water development projects and activities. The program funds both grants and loans for projects. Eligible applicants include all state and local public entities, private individuals, associations, corporations, or other legally constituted private entities.

Loans are limited to $200,000. The interest rates charged will be the rate at which the general obligation bonds funding the program are sold. Loan repayment periods will be set for the life of the project or 30 years, whichever is less.

Eligible projects and activities include, but are not limited to, the following: irrigation system development or repair, saline-seep abatement; offstream and tributary storage, canal lining; provision or

improvement of water-based recreation; hydropower; streambank stabilization; erosion control; rehabilitation of existing projects; rural water supply development; and municipal water supply repair or development.

The application period for each biennium extends through May of the year preceding that of the legislative session. This will be in May of even-numbered years. Prospective private applicants for loans only should contact the Department regarding the application and review schedule.

H. Board of Investments Loans:

The Montana Board of Investments has authority to invest up to 10 percent of any of the funds under its supervision in Montana businesses. The Board may make debt or equity investments. The Board considers each application individually.

I. Security Regulation Exemptions for Small Business:

The 1983 legislature authorized the State Securities Department to provide limited relief from the registration provisions of the Montana "Securities Act" for small and existing businesses that are attempting to raise a limited amount of equities financing. Pursuant to this new authority, the Securities Department recently adopted two new exemptions that will make it significantly easier for Montana businesses to raise financing through securities offerings.

Under the Montana Venture Capital Exemption, small Montana firms who limit their offerings to Montana can raise up to $400,000 without having to register their securities. Under this exemption, firms can offer to sell their securities to an unlimited number of people, provided there are not more than 25 actual purchasers during any 12-month period.

With the adoption in Montana of the Uniform Limited Offering exemption, Montana joins 26 other states that have replaced the traditional registration of securities with a simple notice filing for security offerings made in compliance with limited offering exemption provisions of the U.S. Securities Act of 1933. This exemption will primarily benefit Montana firms that are attempting to sell their securities in other states.

J. City, Town, and County Industrial Development Bonds:

All cities, towns, and counties in Montana are authorized to issue stand-alone industrial development bonds to finance business expansion. Over $200 million in local IDBs were issued in 1983, mostly to large industrial projects.

K. EDA Loan Guarantees:

The federal Economic Development Administration guarantees business loans in economically depressed areas designated by EDA. The loans can be used either for financing the cost of fixed assets or for working capital purposes. Fixed-asset projects can be for the purchase or development of land and facilities (including machinery and equipment) or for the construction, rehabilitation, conversion or enlargement of existing

buildings. Working capital loans ordinarily cannot be for revolving or open-end loans nor to refinance existing debt.

SECTION VIII

AUDITOR'S REPORT AND BOARD FINANCIAL STATEMENTS

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:
JAMES H. GILLETT
FINANCIAL/COMPLIANCE AUDITS
SCOTT A. SEACAT
PERFORMANCE AUDITS

STAFF LEGAL COUNSEL
JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Combined Balance Sheet - All Fund Types and Account Groups; the Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund; the Statement of Revenues, Expenditures and Changes in Fund Balance - All Governmental Fund Types; the Statement of Revenues, Expenses and Changes in Fund Balance - Non-Expendable Trust Fund; and the Statement of Changes in Financial Position - Non-Expendable Trust Fund of the Montana Economic Development Board as of June 30, 1984, and for the fiscal year ended June 30, 1984. Our examination was made in accordance with generally accepted governmental auditing standards for financial and compliance audits and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The financial statements presented are only for the Montana Economic Development Board. Accordingly, the accompanying financial statements are not intended to present fairly the financial position of the state of Montana as of June 30, 1984 or the results of its operations and changes in its fund balances for the fiscal year then ended, in conformity with generally accepted accounting principles.

We did not examine investments administered by the Board of Investments which constitute 98 percent of assets at June 30, 1984 in the Non-Expendable Trust Fund and Debt Service Fund. These investments were examined by other auditors whose report has been furnished to us. Our opinion, as it relates to the amounts of investments is based solely on the report of the other auditors.

In our opinion, based upon our examination and the report of other auditors, the financial statements referred to above present fairly the financial position of such funds and account groups of the Montana Economic Development Board as of June 30, 1984 and the results of operations and the changes in fund balance of such funds for the fiscal year ended June 30, 1984, in conformity with generally accepted accounting principles.

Sincerely,

James H. Gillett, CPA
Deputy Legislative Auditor

September 14, 1984

Approved:

Robert R. Ringwood
Legislative Auditor

ASSETS

Cash
Due from Other Fund
Investments
Long Term Notes and
Amount Available to
Amount to be Provid
Equipment
TOTAL ASSETS

LIABILITIES AND FUN

Liabilities:
Due to Other Funds
Accounts Payable
Accrued Expenditur
Long Term Debt - C
Accountability for
Total Liabilit

Fund Equity:
Fund Balance
Investment in Gene
Total Fund Equ

TOTAL LIABILIT

The notes to the fi

MONTANA ECONOMIC DEVELOPMENT BOARD
COMBINED BALANCE SHEET - ALL FUNDS AND ACCOUNT GROUPS
JUNE 30, 1984

	GOVERNMENTAL FUND TYPE		FIDUCIARY FUND TYPE		ACCOUNT GROUPS	
	General	Debt Service	Non-Expendable Trust	Agency	General Fixed Assets	General Long Term Debt
ASSETS						
Cash			$ 3,132			
Due from Other Funds			2,136	$412,973		
Investments		$57,005	10,171,933			
Long Term Notes and Loans Receivable			177,864			
Amount Available to Pay Accrued Liabilities	$420,624					
Amount to be Provided for Compensated Absences						$ 6,033
Equipment					$ 8,615	
TOTAL ASSETS	$420,624	$57,005	$10,355,065	$412,973	$ 8,615	$ 6,033
LIABILITIES AND FUND EQUITY						
Liabilities:						
Due to Other Funds	$355,969	$57,005	$ 2,136			
Accounts Payable	30,516					
Accrued Expenditures	34,139					
Long Term Debt - Compensated Absence						$ 6,033
Accountability for Property Held in Trust				$412,973		
Total Liabilities	420,624	57,005	2,136	412,973	$ -0-	6,033
Fund Equity:						
Fund Balance			10,352,929			
Investment in General Fixed Assets					8,615	
Total Fund Equity	-0-	-0-	10,352,929	-0-	8,615	-0-
TOTAL LIABILITIES AND FUND EQUITY	$420,624	$57,005	$10,355,065	$412,973	$ 8,615	$ 6,033

The notes to the financial statements are an integral part of this statement.

MONTANA ECONOMIC DEVELOPMENT BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1984

	GENERAL FUND		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Investment Earnings	$ 205,000		$(205,000)
Licenses and Fees	20,000	$ 1,800	(18,200)
Total (see Note 5)	225,000	1,800	(223,200)
EXPENDITURES:			
Economic Development Board Administration	400,000	194,101	205,899
Total (see Note 5)	400,000	194,101	205,899
EXCESS OF REVENUES OVER(UNDER) EXPENDITURES	(175,000)	(192,301)	(17,301)
OTHER FINANCING SOURCES (USES):			
Support (To) From State General Fund	175,000	192,301	(17,301)
Total	175,000	192,301	(17,301)
EXCESS OF REVENUES OVER(UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	-0-	-0-	-0-
FUND BALANCE, July 1, 1983	-0-	-0-	-0-
FUND BALANCE, June 30, 1984	$ -0-	$ -0-	$ -0-

The notes to the financial statements are an integral part of this statement.

MONTANA ECONOMIC DEVELOPMENT BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1984

	GENERAL FUND		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Investment Earnings	$ 205,000		$(205,000)
Licenses and Fees	20,000	$ 1,800	(18,200)
Total (see Note 5)	225,000	1,800	(223,200)
EXPENDITURES:			
Economic Development Board Administration	400,000	194,101	205,899
Total (see Note 5)	400,000	194,101	205,899
EXCESS OF REVENUES OVER(UNDER) EXPENDITURES	(175,000)	(192,301)	(17,301)
OTHER FINANCING SOURCES (USES):			
Support (To) From State General Fund	175,000	192,301	(17,301)
Total	175,000	192,301	(17,301)
EXCESS OF REVENUES OVER(UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	-0-	-0-	-0-
FUND BALANCE, July 1, 1983	-0-	-0-	-0-
FUND BALANCE, June 30, 1984	$ -0-	$ -0-	$ -0-

The notes to the financial statements are an integral part of this statement.

MONTANA ECONOMIC DEVELOPMENT BOARD
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1984

	GOVERNMENTAL FUND TYPES	
	General	Debt Service
REVENUES:		
Licenses and Fees	$ 1,800	
Total	$ 1,800	$ -0-
EXPENDITURES:		
Economic Development Board Administration	194,101	
Total	194,101	-0-
EXCESS OF REVENUES OVER(UNDER) EXPENDITURES	(192,301)	-0-
OTHER FINANCING SOURCES (USES):		
Support from State General Fund	192,301	
Transfer Out		(10,352,929)
Support from Coal Tax Collections		10,352,929
Total	192,301	-0-
EXCESS OF REVENUE OVER(UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	-0-	-0-
FUND BALANCE, July 1, 1983	-0-	-0-
FUND BALANCE, June 30, 1984	$ -0-	$ -0-

The notes to the financial statements are an integral part of this statement.

MONTANA ECONOMIC DEVELOPMENT BOARD
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND BALANCE
NON-EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1984

	FIDUCIARY FUND TYPE
	Non-Expendable Trust
Operating Revenue	$ -0-
Operating Expenses	-0-
Operating Transfers - In	10,352,929
Net Income	10,352,929
Fund Balance, July 1, 1983	-0-
Fund Balance, June 30, 1984	$10,352,929

The notes to the financial statements are an integral part of this statement.

MONTANA ECONOMIC DEVELOPMENT BOARD
STATEMENT OF CHANGES IN FINANCIAL POSITION
NON-EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1984

	FIDUCIARY FUND TYPE
	Non-Expendable Trust
SOURCES OF WORKING CAPITAL	
Operations:	
Net Income	$10,352,929
Total Sources of Working Capital	10,352,929
USES OF WORKING CAPITAL	
Increase in Restricted Assets	
- Long Term Note Receivable	177,864
Total Uses of Working Capital	177,864
NET INCREASE (DECREASE) IN WORKING CAPITAL	$10,175,065
ELEMENTS OF NET INCREASE (DECREASE) IN WORKING CAPITAL	
Cash	$ 3,132
Due From Other Funds	2,136
Investments	10,171,933
Due to Other Funds	(2,136)
NET INCREASE (DECREASE) IN WORKING CAPITAL	$10,175,065

The notes to the financial statements are an integral part of this statement.

MONTANA ECONOMIC DEVELOPMENT BOARD

Notes to the Financial Statements

For the Fiscal Year Ending June 30, 1984

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The financial statements were prepared from the Statewide Budgeting and Accounting System.

The state of Montana utilizes the modified accrual basis of accounting for governmental fund types. Expenditures are recorded on the basis of incurred costs or legal liability and revenues are recorded when received in cash unless susceptible to accrual. Revenues are susceptible to accrual if they are measurable and available to finance expenditures of the fiscal period.

The state of Montana follows the accrual basis of accounting for the Proprietary Fund Types and the Non-Expendable Trust Funds.

B. Description of Funds

The preceding financial statements were prepared from the Statewide Budgeting and Accounting System (SBAS). The funds and account groups presented and their relationship to the state treasury fund structure are as follows:

GOVERNMENTAL FUND TYPES

General Fund - To account for receipt and expenditure of money allocated to the department by the state for support of the board's program.

Debt Service Fund - To account for the accumulation of resources for and the payment of general long-term debt principal and interest.

Agency Fund - To account for assets held by a governmental unit as an agent for individuals, private organizations, or other governmental units.

FIDUCIARY FUND TYPES

Non-Expendable Trust Fund - To account for assets held by state government in a trustee capacity or as an agent for individuals, private organizations, other governmental entities, or other funds.

GENERAL FIXED ASSETS ACCOUNT GROUP - To account for equipment purchased by the Montana Economic Development Board. These funds correspond with amounts recorded in the Property Accountability and Management System (PAMS) within the Statewide Budgeting and Accounting System.

LONG-TERM DEBT ACCOUNT GROUP - A self-balancing group of accounts set up to establish accounting controls and accountability for unmatured long-term liabilities.

C. Encumbrances

Encumbrances are recorded for purchase orders, contracts and other commitments in order to reserve that portion of applicable appropriations for all funds. At fiscal year-end, in accordance with state policy, major qualifying encumbrances are reclassified as payables and charged as expenditures.

D. Inventories

Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. The amount of supplies inventory on hand at June 30, 1984 was immaterial.

E. General Fixed Assets and Depreciation

General fixed asset purchases are recorded as expenditures in the various funds at the time of purchase. General fixed assets are not depreciated.

F. Insurance

The board is insured through the Insurance Division of the Department of Administration.

2. EMPLOYEES' RETIREMENT SYSTEM

The Montana Economic Development Board (MEDB) employees are covered by the Public Employees' Retirement System (PERS). This plan is administered by the state of Montana. Under PERS, the state contributes 6.417 percent of an employee's gross wages to PERS. All eligible employees contribute 6.0 percent of gross wages. The board's contribution to PERS for the fiscal year ended June 30, 1984 was $5,803.

The state's policy is to fund accrued pension costs. The unfunded past service costs and the actuarially computed value of the vested benefits are not readily available for the members of the plans employed by the board. The Public Employees' Retirement System was actuarially sound at June 30, 1982.

3. INVESTMENTS

Investments are units purchased in the state of Montana's Short-Term Investment Pool and are reflected at cost. The June 30, 1984 balance reflects the following:

Number of Units	Cost	Market Value
10,832	$10,228,914	$9,993,928

4. GENERAL FUND BALANCE

The beginning and ending fund balance of the board is zero since any balance in the fund is owed to the state General Fund at fiscal year-end.

5. BUDGET INFORMATION

Appropriations for the Montana Economic Development Board are established by the Legislature for the biennium. Appropriations for board operations are established as fixed amounts. The Economic Development Board will revert unspent General Fund appropriation authority at the end of the 1984-85 biennium.

Revenue estimates are established annually by each agency for moneys the agency expects to collect during the year. The Economic Development Board estimated General Fund revenue collections for fiscal year 1983-84 at $225,000.

6. ANNUAL AND SICK LEAVE

Annual leave and sick leave costs are not recorded until leave is taken. Upon termination, qualifying employees with unused accumulated annual and sick leave receive 100 percent payment for annual leave and 25 percent payment for sick leave. The liability amount associated with unused annual and sick leave at June 30, 1984 is maintained on an hourly basis. Annual leave is earned based on length of state service (15 days per year, up to 24 days per year). Payouts of leave are made at current payroll rates.

APPENDICES

Authorizing Legislation

Approved Financial Institutions

Outline of Administrative Rules

List of Board Meetings

Coal Tax Workshops

Composite Industrial Development Bond Workshops

Distribution of Coal Tax

Summary of Legislative Recommendations

AUTHORIZING LEGISLATION

Montana Economic Development Board

2-15-1805, 2-16-1806, 2-16-1807, MCA. Create Montana Economic Development Board

17-6-201, MCA. MEDB Given Authority to Invest State Funds Under United Investment Program

17-56-301 to 17-6-331, MCA. Montana In-State Investment Act of 1983

17-5-1501 to 17-5-1529, MCA. Montana Economic Development Bond Act of 1983

17-5-1601 to 17-5-1651, MCA. Municipal Finance Consolidation Act of 1983

90-8-101 to 90-8-321, MCA. Montana Capital Company Act

APPROVED FINANCIAL INSTITUTIONS

October 26, 1984

ANACONDA	First Security Bank	012-01	Frank Bennett
BAKER	Bank of Baker	013-01	Pete Terrett
BELGRADE	Valley Bank	016-02	Richard Seiss
BILLINGS	Western Bank	056-01	George Balback
	Norwest Bank	056-03	Robert Anderson
	First Interstate Bank	056-05	Thomas Jochim
	First Interstate-Heights	056-05	Larry Jochim
BUTTE	Miners Bank of Montana	047-01	Scott Santee
	Montana Bank	047-02	Charles Anderson
	Norwest Bank Ana-Butte	047-03	John Stenbeck
COLUMBIA FALLS	Glacier Nat'l Bank	015-02	Douglas Remick
	Bank of Columbia Falls	015-06	Steve Warren
DEER LODGE	Deer Lodge B & T	039-01	Arthur Anderson
DILLON	State Bank & Trust	001-01	Clinton Rouse
EUREKA	First National Bank	027-01	Jack Kelly
FAIRFIELD	First National Bank	050-01	Jim Johnson
GLASGOW	First Security Bank	053-01	Kenneth Truesdell
GLENDIVE	First Fidelity Bank	011-01	Duane Friez
	First National Bank	011-02	Gary Bradley
GREAT FALLS	Norwest Bank	007-01	Dale Anderson
	First Bank West	007-02	Phillip Johnson
	First Interstate GF	007-03	William Parker
	First Bank GF	007-04	James Purdy
	Village Bank	007-05	Roger Kornder
	Fidelity S & L Assn.	007-06	Sheila Buchanan
HAVRE	Burlington-Northern CU	021-01	James Welter
HELENA	Norwest	025-01	Jon Patterson
	First Security Bank	025-02	Paul Caruso
	Bank of Montana	025-03	Richard Hart
	Develop. Corp. of Mont.	025-04	Richard Bourke
	First Bank Helena	025-05	Richard Fossum

KALISPELL	Valley Bank	015-01	Dick Maurer
	First Security Bank	015-02	Tom Weaver
	Norwest Bank	015-05	Frank Zbacnik
	First Interstate Bank	015-07	Norm Simpson
LAUREL	First Security Bank	056-02	Bill Thorndal
LEWISTOWN	Norwest Bank	014-01	Donald Davison
LIBBY	First National Bank	027-02	Wayne Haines
LIVINGSTON	Montana Bank	034-01	Kevin Clark
	First National Park Bank	034-02	C.L. Newland
MALTA	First State Bank	036-01	Roger Ulrich
MILES CITY	First Citizens Bank	009-01	Larry Jochim
	First National Bank	009-02	Gordon Bickle
	First Security B & T	009-03	Linda Wideman
MISSOULA	First Bank Southside	032-01	Robert Henry
	First Bank-Western Mont.	032-02	Thomas Wilkins
	First Security Bank	032-03	Larry Banister
	Mont. Bank So. Missoula	032-04	Mark Lyons
	First Nat'l Mont. Bank	032-05	Dave Hansen
POLSON	First Citizens Bank	024-01	Rick Skates
	Security State Bank	024-03	Lynn Weaver
RONAN	Valley Bank	024-02	Allen Buhr
	Ronan State Bank	024-04	Martin Olsson
SIDNEY	Richland Nat'l. B & T	042-01	Robert Goss
	First United Bank	042-02	Bill McIntosh
W. YELLOWSTONE	First Security Bank	016-06	Mike Polkowske
WHITEFISH	Mountain Bank	015-03	Buster Schreiber

OUTLINE OF ADMINISTRATIVE RULES

CHAPTER 97

MONTANA ECONOMIC DEVELOPMENT BOARD

Sub-Chapter 1

Organizational Rule

Rule	8.97.101	Organizational Rule

Sub-Chapter 2

Procedural Rules

Rule	8.97.201	Procedural Rules
	8.97.202	Citizen Participation Rules

Sub-Chapter 3

General Provisions & Application Procedures

Rule	8.97.301	Definitions
	8.97.302	Approval of Financial Institutions
	8.97.303	Confidentiality of Information
	8.97.304	False or Misleading Statements
	8.97.305	Application Procedures
	8.97.306	Review of Application by Administrator
	8.97.307	Board Review of Application
	8.97.308	Rates, Service Charges, and Fee Schedule
	8.97.309	Non-Discrimination

Sub-Chapter 4

Montana In-State Investment Fund

Rule	8.97.401	Board In-State Investment Policy
	8.97.402	Criteria for Determining Eligibility
	8.97.403	Preferences
	8.97.404	Investment Authorized by Rule
	8.97.405	Short-Term Certificate of Deposit Program
	8.97.406	Economic Development Linked Deposit Program
	8.97.407	Federally Guaranteed Loan Program
	8.97.408	503 Loan Participations
	8.97.409	Loan Participations
	8.97.410	Guaranteed Loan Program
	8.97.411	Bonds and Notes of Board

Sub-Chapter 5

Rules Governing the Montana Economic Development Board Program

Rule	8.97.501	Definitions
	8.97.502	Scope of Sub-Chapter 5
	8.97.503	Description of Economic Development Bond Program
	8.97.504	Bonding Limit
	8.97.505	Eligibility Requirements
	8.97.506	Criteria for Evaluating Applications
	8.97.507	Application Procedure
	8.97.508	Allocation of Capacity
	8.97.509	Application for Financing Fees, Costs and Other Changes
	8.97.510	Interest Loans
	8.97.511	Closing of Loans
	8.97.512	Taxable Revenue Bond Program

Sub-Chapter 6 Reserved

Sub-Chapter 7

Municipal Finance Consolidation Program

Rule	8.97.701	Definitions
	8.97.702	Scope of Sub-Chapter 7
	8.97.703	Description of Municipal Finance Consolidation Act Program
	8.97.704	The Municipal Bond Program
	8.97.705	Application Procedures
	8.97.706	Criteria for Evaluation of Applications
	8.97.707	Agreements
	8.97.708	Financial Requirements and Covenants
	8.97.709	Terms, Interest Rates, Fees, and Charges
	8.97.710	Reserve Fund
	8.97.711	Closing Requirements

Sub-Chapter 8

Montana Capital Companies

Rule	8.97.801	Purpose
	8.97.802	Definitions
	8.97.803	Application Procedure to Become a "Certified" Montana Capital Company
	8.97.804	Application Procedure to Become a "Qualified" Montana Capital Company
	8.97.805	Completed Application Date
	8.97.806	Amendment of Application
	8.97.807	Allocation of Tax Credits
	8.97.808	Quarterly Reporting of Qualified Investments

LIST OF BOARD MEETINGS

July 29, 1983 - Helena

August 11-12, 1983 - Helena

September 12-13, 1983 - Helena

October 3, 1983 - Kalispell

October 11, 1983 - Conference Call

October 24, 1983 - Helena

October 28, 1983 - Conference Call

November 17, 1983 - Public Hearing Helena

November 21, 1983 - Conference Call

November 28, 1983 - Billings

December 15-16, 1983 - Helena

December 16, 1983 - Joint Meeting with Board of Investments - Helena

December 21, 1983 - Conference Call

January 4, 1984 - Conference Call

January 20, 1984 - Helena

January 20, 1984 - Public Hearing - Helena

February 1-2, 1984 - Great Falls

February 10, 1984 - Conference Call

March 30, 1984 - Butte

April 27 (May 11), 1984 - Helena

May 18, 1984 - Public Hearing - Helena

May 25, 1984 - Helena

June 29, 1984 - Bozeman

July 25, 1984 - Helena

August 30, 1984 - Helena

September 6, 1984 - Conference Call

September 13, 1984 - Conference Call

September 19-20, 1984 - Subcommittee Meetings

September 26, 1984 - Public Hearing - Helena

September 28, 1984 - Lewistown

October 24, 1984 - Public Hearing

October 26, 1984 - Helena

November 30, 1984 - Helena

December 11, 1984 - Helena

December 17, 1984 - Conference Call

January 4, 1985 - Helena

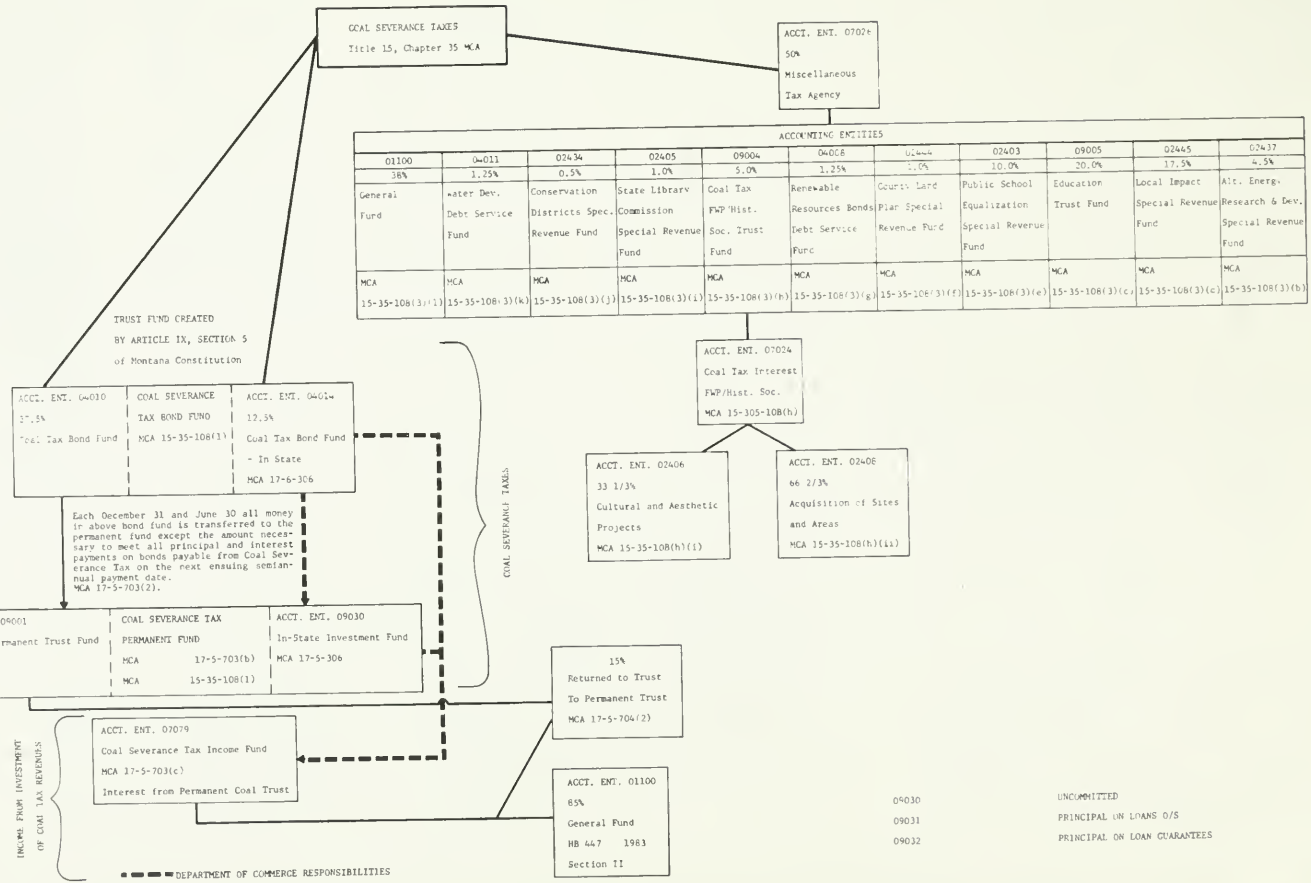
COAL TAX LOAN WORKSHOPS

February 20, 1984	-	Forsyth
February 21, 1984	-	Glendive
February 22, 1984	-	Billings
February 23, 1984	-	Bozeman
February 24, 1984	-	Butte
February 27, 1984	-	Helena
February 28, 1984	-	Great Falls
February 29, 1984	-	Havre
March 1, 1984	-	Kalispell
March 2, 1984	-	Missoula

COMPOSITE INDUSTRIAL DEVELOPMENT BOND WORKSHOPS

July 17, 1984	-	Billings
July 18, 1984	-	Great Falls
July 19, 1984	-	Whitefish
July 20, 1984	-	Missoula
July 23, 1984	-	Helena
July 24, 1984	-	Glasgow

Distribution of Coal Severance Tax Revenues



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SUMMARY OF LEGISLATIVE RECOMMENDATIONS

It is the Board's opinion that it is premature to evaluate the goals established in 17-6-303, MCA or the investment criteria of 17-6-308 and 17-6-309, MCA. The Board has adopted rules consistent with those goals and criteria and all funds committed to date have been consistent with the goals and criteria. We have not received any proposals we desired to finance that were inconsistent with the goals and criteria.

The Board will submit a series of bills to the 49th Legislature for its consideration. Most proposed amendments are routine housekeeping provisions but several are of major importance to the success of the Board's program. The most significant are summarized below:

-- The Board should be authorized to use the in-state investment fund to guarantee industrial revenue development bonds. Use of coal tax funds to guarantee composite IDB bonds will greatly strengthen the credit of the IDBs and make them more attractive to the bond market.

-- The Board should be authorized to establish a loan loss reserve fund using service charges and up to .25 percent interest. The creation of a loan loss reserve fund is a prudent action for any program involving loan payment risk.

-- The Board's loan portfolio should be subject to an annual audit by the Bank Examiners of the Department of Commerce.

-- Fifteen percent of annual income and earnings on the Montana in-state investment should be returned to the in-state investment fund rather than the permanent coal tax trust fund.

-- The requirement for a guarantee on stand-alone IDBs should be eliminated.

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